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The ethics of finance

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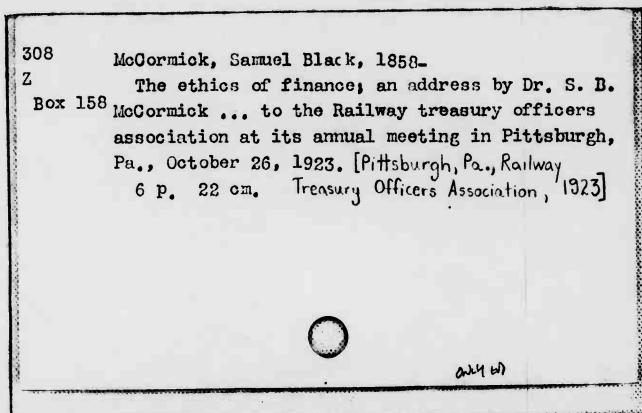
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# THE ETHICS OF FINANCE

## AN ADDRESS

BY

DR. S. B. MCCORMICK

Late Chancellor of the University of Pittsburgh

TO

Railway Treasury Officers Association

AT ITS

Annual Meeting in Pittsburgh, Pa.



October 26, 1923

## THE ETHICS OF FINANCE

Address of Dr. S. B. McCormick, late Chancellor of the  
University of Pittsburgh, Pa.

While I am not one of those who, knowing nothing about it, still find satisfaction in telling railroad officials how to run the roads, I am of those who sincerely appreciate the difficult problem which railroads face today and who have complete sympathy with those who are engaged in solving these problems in the interest and for the benefit of the American people. It is one of the strange phenomena perhaps not peculiar to our democracy, that often times a feeling of unfriendliness is directed toward an institution which is in truth not only a necessary but a beneficent agent in national well being. Whatever the cause of this feeling, the railroads of America have suffered from it and it is the part of good and loyal citizens to help in every possible way to create a public sentiment which will guarantee justice on the one hand and freedom of action on the other which will enable the roads to work out their salvation. This is all they ask and this much they have a right to expect.

In leading to the discussion of my subject "The Ethics of Finance" I quote from an article in a leading weekly as follows:

"The report of the National Honesty Bureau to the effect that three billion dollars are taken from the American people every year through theft and treachery seems to justify the attempt of this new organization to present definite, regular courses for teaching honesty in the schools. Inside thefts, that is, embezzlements by trusted employees, have multiplied six times, and outside thefts more than twelve times in the last ten years, the report states. An "honesty book" has been prepared and distributed to teachers throughout the country. A program for home and community co-operation is included. It is planned to study carefully the motives for dishonesty and to stress the practical value of honest living. The notion that it is clever to get by with some dishonest action has been found the basis for much juvenile misdeemeanor. The National Honesty Bureau, with its backing of practical business men, will combat this current idea by showing that a code of strict integrity is demanded in modern business, that upon this ideal of honesty, financial credit and positions of responsibility are founded. The appeal to patriotism, to the heroic, to pride in clean scholarship, and similar themes, is emphasized in the plan of instruction."

While the thought is not a pleasant one in a nation, whose people are pre- vailingly honest, that a condition should exist which makes such special instruction necessary, yet it is obvious from current happenings that need for improvement in this department of ethical behavior exists; and the very fact that this Bureau has been organized will serve to call to the notice of the people this defect in our National life. It will also almost certainly aid in effecting a cure.

Tomorrow will be the sixty-fifth anniversary of the birth of Theodore Roosevelt. On that day in New York will be dedicated as a national memorial the house in

which he was born. This is a worthy project. If I have not myself been able to accept his progressive political concepts, I still count him one of our greatest men, worthy of a place beside Washington, the Father, and Lincoln, the Saviour, of our Country. I put him there for a number of reasons; but chiefly because he was the outstanding exponent of personal and national integrity. He stood for the square deal for every man—the essence of which is simple justice and plain honesty. His reaction against wrong was immediate and spontaneous; and while it lead him more than once to propose remedies which were more harmful than beneficial, it also enabled him to do a service which, nation-wide, will be long enduring. One cannot forget the improper methods by which the railroads, denied unjustly of rights and privileges which were their due, secured these rights in the legislature of the Commonwealths; and neither can one forget the manipulation of these same railroads in later years, whereby a few were enriched and the many were impoverished. What the Insurance Companies, unmindful of their high mission and of the interests of their beneficiaries, did, is also still a vivid memory. If the conscience of America was shocked at these revelations of unethical practice on the part of the leaders of Finance and if these practices have been largely outlawed, it was due to Roosevelt more than to any other single man. He came to the Presidency at a time when the ethics of finance were on a plane far below that of the ordinary business man; when he left the Presidency nearly eight years after this plane was very much higher. Things were done at that time, in the name of honorable and successful finance, which would not now be tolerated either by the individual or the Community Conscience—and this achievement was, I think, chiefly Mr. Roosevelt's. Once people across the sea, where business, financial and political customs were more fixed, and ethically perhaps somewhat superior, were accustomed to say of America that it was a nation where the standard of individual honesty was high but that of corporate and political honesty was not what it ought to be. Such a charge would now be false if it were made; and as a fact would not be made at all. So much is worthy of pride and satisfaction.

Nevertheless, the National Bureau of Honesty has come into being because of conditions which still exist and which so far as they exist are obviously a menace to the well-being of the nation. It is desirable that this condition should be remedied, and I know of no body of men who can do more to remedy it than the very men who occupy positions of trust in handling and in investing the corporate funds of the nation. It is not enough that they be individually honest. It is necessary that they recognize their mission also as teachers of financial integrity. The temptations to excessive expenditure everywhere are admittedly great and these constitute an assault not only upon thrift but upon honesty also. The laxity in law observance, resulting from the throwing overboard of authority—and this largely the consequence of unwise and dangerous enactments affecting personal liberty—weakens the sense of obligation along all lines; and the individual will give way at his weakest point. Often this is his financial integrity. It is idle to complain of conditions; the important thing is to eliminate the causes which are obvious and to devote effort to finding remedies as quickly as possible. In order to do this, men of affairs must have a high sense of their obligation to society and must learn to see with clear vision the reason d'etre of the enterprises which absorb their interest and which it is their business to make successful.

Why a railroad, for instance? The answer is clear—to transport people and things from one place to another. This is an obvious fact, but a very inadequate answer to the question. Another answers, a railroad is a contrivance to serve the

public in transporting men and things so that in doing it money will be made for the owners. This also is true. Still another says, a railroad is a contrivance whereby the material needs of the public are served, those who invest their money in it receive a dividend, and men employed gain a livelihood. This again is true. Each adds something to the conception of the "why" of a railroad; and every part of this has been true and more or less clearly recognized as true from the beginning. Yet at different times in the nearly hundred years since railroading began, administrative officers have been accused of purchasing from legislatures charter rights which should have been freely granted to a corporation which was so obviously a benefactor to the community and the nation. They thus wrought moral evil for which no material benefit could be compensation. Under this conception of the "why" of a railroad, administrative officers for years did as they pleased, without explanation or apology, built up communities and without compunction tore them down, gave rebates thus favoring one set of men and destroying financially another set, and all with the single idea and purpose, namely, to make as large a profit for the owners regardless of anything else. Again under this conception of the "why" of a railroad the employees when they got the chance held up the Congress of the United States, placing in peril thereby the liberties of the world, until their demands were met; and attempted to secure the passage of a Bill which was based, whether its author was conscious of it or not, upon the theory that railroads existed for the purpose of giving employment to the men and therefore that their management must have this as the chief object in view—just exactly what the officers had done when in earlier years the chief consideration was profit to the stockholders. What further demands may yet be made and what further injustices may be committed, under this conception of the "why" of a railroad no man can foresee.

It is quite clear, is it not, that our definition has not defined, or at least sufficiently defined, the function of the transportation system of a Nation. It is a contrivance to serve the needs of a people, by transporting people and things, so conducted as to serve the interests of society and of civilization. As such it is a moral entity, an ethical institution to which are committed interests which affect all the people all the time. Did you ever stop to think that in Russia the absence of money as a medium of exchange and the complete breakdown in the transportation system plunged Russia into chaos in a few days; and that the withdrawal of these two things in America would do exactly the same thing for us overnight? It is an institution of tremendous significance, this railway's system of ours whose financial affairs are in your hands; and unless its service to the moral well-being of men, to society, to civilization, is recognized and kept continually in the Consciousness of those charged with responsibility for its management, then it may become a frankenstein to destroy rather than a benefactor to confer all but infinite benefits.

Of course what I am saying of railroads and their affairs applies to all corporate bodies and to every man in any position of influence therein. No man can be a good citizen simply by obeying the laws and voting on election day. He must add to his duty the task of knowing his Country's history, of forming some intelligent conception of its destiny and of shaping his personal conduct so as to promote the well-being and perfect the service his Country is to render at home and throughout the world. No railway treasurer can be a good treasurer simply by handling the monies of the company honestly and investing its funds discreetly; he must add to his duty the task of knowing what railroads are for and of doing his part every day toward enabling them to fulfil their function. There may come to him, and every man has experiences of this kind, requests to do something, requests that

may sometimes seem to be commands, which his sensitive conscience condemns as wrong or not quite right; and if at such a time he is content to hide under the pretext that his superior knows about it and approves, or asks him to do it and expects it to be done, he will have ignored his duty to his company as completely as if he had done a deliberate wrong. He will have forgotten the real function of the road as an agent of social betterment, which forbids any advantage at the expense of right; and he will have forgotten too, his obligation both to those above him and those below him, to be true to ethical duty, in every situation, because honesty and integrity are a part of his concern; and particularly he should remember his obligation to those in his employ who in the long run know exactly the ethical spirit which controls.

Bear with me a few minutes longer. There is another reason, most vital, why the ethics of finance should be on the very highest plane—namely the importance of economics in the affairs of a people. One understands that in the order of essential worth the body is lowest, the mind next, and the soul or spirit highest; but so far as this world is concerned, the only world we know anything about, the body houses the mind and soul and therefore is of primary importance. It conditions the functioning of both the others and must, therefore, have first practical consideration. So in the order of essential worth economics is lowest, psychology or philosophy second, and religion highest; but again neither the science of mind nor of the soul can have any real place unless due regard is had for economics. The man therefore who deprecates wealth or who would destroy it is as much an enemy of society as the man who would deliberately destroy a human person. Property is one of those things which, inferior to manhood, is vital to manhood. Its roots are in human personality; and he who seeks to destroy it strikes at personality itself. I venture the proposition that any scheme of communism or socialism, however idealistic and well-intentioned, is fundamentally bad and destructive of the higher and finer things in human life, because they inevitably aim at aspiration, ambition and progress; and therefore as human nature is and will long continue to be, and as society is and will continue to be, these schemes, whatever form they assume, are altogether destructive and a hindrance to real progress. We are living, however, in a period when this very program is advanced by groups of men, not in America only, but in all nations, and this with an energy and an enthusiasm never before known. The program involves destruction all along the line—the overthrow of the family, of society, of industry, of the state, even of religion. Syndicalism will take the place of government and agnosticism divorced from all ethics, will take the place of faith and religion. If, then, the men who own property, who manage industry, who control finance are themselves dishonest, or practice or permit the practice of dishonesty or if they so act as to do injustice or permit injustice to be done, they are preparing the way whereby the program of destruction will certainly succeed and we shall return to primitive conditions once more. Upon this I need not enlarge; but you perceive the vital importance of this matter and its far-reaching significance in the situation which prevails today.

It is obvious, therefore, that upon the men whom I address today, rests a tremendous responsibility—a responsibility which far transcends the mere performance of the routine duties of the office itself. You are not only the custodians of money; you are custodians of the interests of men and women; you are custodians of society and civilization; and you are custodians of future generations whose happiness and well-being will depend upon both the fidelity and the intelligence with which you apprehend and discharge the obligations which you have assumed and which you must faithfully and intelligently perform.

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